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Michael K. Smith, Secretary

MEMORANDUM

To: Senator Jim Leddy, Co-Chair, Commission on Health Care Reform
Representative John Tracy, Co-Chair, Commission on Health Care Reform
Senator Jeanette White, Co-Chair, Health Access Oversight Committee
Representative Ann Pugh, Co-Chair, Health Access Oversight Committee

From: Susan W. Besio, Ph.D.
Director, Health Care Reform Implementation

Date: October 30, 2006

Subject: Preliminary Estimates for Catamount Health Insurance Premiums

Attached please find the Administration's preliminary estimates of the full premium costs for Catamount Health Plan, as developed by Tim Harrington of Mercer Oliver Wyman on behalf of the Department of Banking, Insurance and Health Care Administration (BISHCA).

Please note that these estimates were developed solely to inform the Administration's planning for implementing the Premium Assistance Programs for Catamount Health and Employer-Sponsored Insurance (ESI). The administration needs the Catamount Health estimate to determine the likely SFY08 budgetary impacts of the premium assistance programs. In addition, the estimate will be used to determine how many people with incomes over 150% FPL but under 300% FPL are likely to enroll in ESI vs. Catamount Health; this information is a required part of the report due to the legislature in November based on Section 13 of Act 191.

The actual premium rates for the Catamount Health products will be available once the carriers offering Catamount Health submit their actual rates in mid-March, 2007 and these rates are reviewed and approved by BISHCA. Estimates in the enclosed report will not have any bearing on the final approved rates. [1] In fact, to develop these preliminary estimates, Mr. Harrington had to rely on assumptions that may or may not be applicable once the actual carriers develop their product.

As you know, 9.8 percent of Vermont residents are without health insurance. In addition, existing insurance products for purchase by individuals are expensive and/or do not provide comprehensive benefits. To address this, as prescribed in 8 V.S.A.

[1] Catamount Health policies will be available beginning October 1, 2007. Based on letters of intent submitted in early October, 2006, it is anticipated that Catamount Health policies will be offered by Blue Cross Blue Shield of Vermont, MVP, and Capital District Physicians Health Plan.

4080(f), Catamount Health Plan is intended to be a lower cost, comprehensive health insurance product for uninsured Vermonters.

Specifically, Catamount Health Plans will provide generous benefit coverage, including primary care, preventive and chronic care, acute episodic care, and hospital services. The law also dictates low cost sharing for beneficiaries, such as a $250 deductible and no cost-sharing for chronic care management and preventive services. Mr. Harrington included these factors in his preliminary estimates.

To make the plan even more affordable, uninsured Vermonters[2] with incomes under 300% of federal poverty level (FPL) may apply for premium assistance from the state to enable them to purchase a Catamount Health policy for the following monthly costs to the individual[3]:

- Under 200% FPL *($19,600)*: $60 per month
- 200-225% FPL *($19,600 – 22,050)*: $90 per month
- 225-250% FPL *($22,050 – 24,500)*: $110 per month
- 250-275% FPL *($24,500 – 26,950)*: $125 per month
- 275-300% FPL *($26,950 – 29,400)*: $135 per month

While there is a tendency to attempt to compare Catamount Health to the current nongroup products, no such comparison can be made. The current nongroup products offer different benefit plans with much higher cost sharing obligations for the individual, and with a variety of deductible and co-insurance requirements. For example, as of July 2006, the lowest deductible nongroup product offered by Blue Cross Blue Shield of Vermont (BCBSVT) and MVP contains a $3,500 per person deductible. The BCBSVT product costs $444 per month for single coverage and includes a 20% co-insurance requirement. MVP's product with a $3,500 deductible ranges in cost from $168 - $253 per month depending on the age of the insured and includes a 30% co-insurance requirement. Obviously, these are very different plans than Catamount Health.

We look forward to continuing to work with you as this important aspect of Vermont's comprehensive health care reform package is developed.

cc: Michael K. Smith, Secretary
John Crowley, Commissioner, BISHCA
Christine Oliver, Deputy Commissioner, BISHCA
Herbert W. Olson, General Counsel, BISHCA

[2] A Vermont resident who has been uninsured for at least 12 months, who is not eligible for a public insurance program such as Medicaid, and who does not have access to comprehensive or affordable employer-sponsored insurance may apply for financial assistance to purchase a Catamount Health policy.

[3] The difference between the monthly cost to the individual and the full cost of Catamount Health (approximately $362 per month in 2007) will be a subsidy paid by the state.

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To: John P. Crowley, Commissioner
From: Christine Oliver, Deputy Commissioner
Herbert W. Olson, General Counsel
Date: October 30, 2006
Re: Initial estimated premium for Catamount Health

The Department's health insurance actuary, Tim Harrington of Mercer Oliver Wyman, has completed the attached initial estimate of Catamount Health premiums. Mr. Harrington suggests using the following estimate for Catamount Health premiums offered in October 2007:

- Single coverage: $362 per month / $4,344 per year
- Two-person coverage: $723 per month / $8,676 per year
- Family coverage: $976 per year / $11,712 per year

You should be aware of several important caveats relative to Mr. Harrington's estimate:

1. Mr. Harrington's estimate is based upon the assumptions made in his report, some of which have been provided by others, including the Legislature. While Mr. Harrington believes these assumptions are reasonable for purposes of this initial estimate, he is also aware that the assumptions may be subject to change as more information becomes available. For example, the enrollment assumptions used by Mr. Harrington are those developed by the Legislature in May 2006, and may change as a result of an ongoing, collaborative effort by Executive Branch and Legislative staff. At the risk of stating the obvious, Mr. Harrington's premium estimate may change if one or more material assumptions upon which it is based also changes.

2. This work was undertaken for the sole and limited purpose of assisting the Agency of Human Services in their design of the Premium Assistance Program for Catamount Health insurance policies for the uninsured, in accordance with Act 191. The Agency requested an estimate of the unsubsidized cost of Catamount Health so that a financial model and a financial estimate of the program can be developed. Mr. Harrington's work is not intended to duplicate the work of carriers in developing initial rates for Catamount Health, nor is it intended to supplant or in any way affect the BISHCA rate-setting process.

3. Mr. Harrington's estimate has absolutely no bearing on the rate setting process provided for by law for Catamount Health premiums. Under 8 V.S.A. 4080f(g), carriers intending to offer Catamount Health insurance policies beginning October 2007 must file proposed rates with BISHCA. Rates will not be approved unless they meet the statutory standards established by 8 V.S.A. section 4080f(g). Proposed rates filed by carriers might be higher than Mr. Harrington's estimate, or they might be lower than Mr. Harrington's estimate; in either event Mr. Harrington's estimate will not be used in BISHCA's rate review and approval process, and will not have any effect on BISHCA's rate decisions.

This memorandum should accompany all copies of Mr. Harrington's report. Please let us know if you or others have any questions or comments concerning this report.

cc: T. M. Harrington, FCA, MAAA

MERCER OLIVER WYMAN

Initial Premium Estimate for the Catamount Health Plan

T.M. Harrington, FCA, MAAA
October 30, 2006

The purpose of this report is to develop an initial premium estimate for the Catamount Health Plan for the three years beginning 10/1/07, 10/1/08, and 10/1/09.

Major assumptions about the basic structure of Catamount are contained in Appendix 1 to this report, and they form the basis for the premium estimate in Schedule 1. They have been reviewed by the two major health insurers in Vermont.

The estimating process begins on Schedule 1. Item I shows BCBS 4Q06 rates for their PPO product adjusted to the benefit levels of the Catamount Health Plan, and further adjusted to the estimated age distribution of the Vermont uninsured and the provider reimbursement levels as described in Appendix 1. A description of the source of these rates is provided in Appendix 2.

An adjustment for added administrative expenses associated with the uniqueness of Catamount is shown at Item II. Catamount will require insurers to set up unique provider reimbursement systems and reporting systems. While the full extent of these is not presently known, a 5% increment is added to recognize that some added expenses are certain.

In Item III, the rates are shown with the foregoing adjustment.

Item IV shows the trend factors that were selected to project the rates forward to the periods shown. Support for the trends is supplied in Appendix 3.

The projected rates are shown in Item V, and are the result of applying the composite trend factor in Item IV to the adjusted rates in Item III.

Corrections for expected adverse selection are shown in Item VI. These rates assume that the population that enrolls in the first period will have morbidity that is 10% higher than the uninsured population as a whole. As more people enroll, it is expected that the morbidity correction will decrease to 5% in the second period, and 0% in the third period. There is no precise way to know what these factors should be at this point, but it is certain that those most in need of medical care will be the first to enroll. As time goes on, the enrollment will tend to include healthier people.

The rates shown in item VII are further adjusted to reflect expected future savings resulting from a reduction in the cost shift and the implementation of a chronic care management program. Appendix 4 provides some detail.

Item VIII shows the expected enrollment for each period, expressed as Single, Two Person, and Family units. The underlying average member counts are 5,865 for the first year, 11,996 for the second year, and 18,730 for the third year.

The expected annual premium is shown in Item IX.

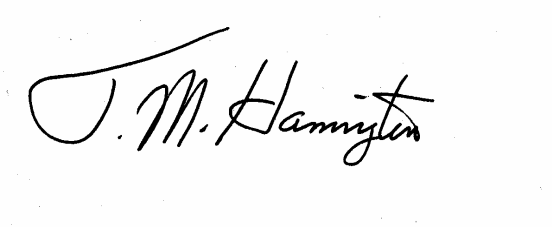
There has been discussion about whether early retirees will be eligible for Catamount. While there is no estimate available on how many early retirees might enroll, we performed an estimate that for every 1,000 such enrollees, the premium rates would increase by 1.5% from what they would be otherwise, and the actual premium would increase by 3.1%.

There is some concern that existing non-group commercial enrollees may be tempted to cancel their commercial coverage, wait for twelve months, and enroll in Catamount to avail themselves of the favorable premium rates.

This report contains a number of assumptions. While we believe that they are reasonable, we also understand that some of them may change as more information becomes available. Therefore, the rates and resulting annual premium developed here should be considered as mid-values of a range of estimates that could probably vary by as much as 5% up and 5% down.

We relied on a number of inputs to arrive at these estimates. We did not audit the input, but did check for general reasonability. However, to the extent that any of the inputs are incorrect or incomplete, the resulting estimates could be impacted.

Comparisons to previous estimates would provide little value. This is the first Mercer estimate that is based on the actual legislation.



Initial Premium Estimate
for the Catamount Health Plan

Item		Amount		Source
I. BCBS 4Q06 rates for the PPO benefit package (Catamount) adjusted to the age distribution of the uninsured and adjusted adjusted for the Catamount provider reimbursement methodologies.				
a. Single		$303.76		Appendix 2.
b. Two Person		$607.51		
c. Family		$820.12		
II. Adjustment to reflect added administrative administrative expenses associated with Catamount.		1.05		Judgement
III. BCBS 4Q06 rates adjusted for Catamount age distribution, provider reimbursement, and administrative expense.				
a. Single		$318.95		Item I x 1.05
b. Two Person		$637.88		
c. Family		$861.13		
IV. Trend factor to project to rating periods.				
a. Hospital		4%	per year	Appendix 3.
b. Professional		4%	per year	
c. Other, except drug		15%	per year	
d. Drug		7%	per year	
e. Composite		5.1%	per year	
V. Projected rates from year beginning 10/1/06 to	Single	2 Person	Family	
a. year beginning 10/1/07	$335.21	$670.41	$905.05	Item III x
b. year beginning 10/1/08	$352.31	$704.60	$951.20	Item IVe,
c. year beginning 10/1/09	$370.28	$740.54	$999.72	compounded as necessary.

Initial Premium Estimate
for the Catamount Health Plan

Item		Amount		Source
VI. Projected rates adjusted for expected expected adverse selection.	Single	2 Person	Family	
a. year beginning 10/1/07	$368.74	$737.45	$995.55	Item Va x 1.10
b. year beginning 10/1/08	$369.93	$739.83	$998.76	Item Vb x 1.05
c. year beginning 10/1/09	$370.28	$740.54	$999.72	Item Vc x 1.00
VII. Projected rates further adjusted for savings from reduced cost-shifting and chronic care management.	Single	2 Person	Family	Appendix 4.
a. year beginning 10/1/07	$361.36	$722.70	$975.64	Item III x .98,
b. year beginning 10/1/08	$362.53	$725.04	$978.79	reflecting a 2%
c. year beginning 10/1/09	$362.87	$725.73	$979.72	savings
VIII. Expected enrollment	Single	2 Person	Family	
a. year beginning 10/1/07	2,933	586	391	Legislative assumptions
b. year beginning 10/1/08	5,998	1,200	800	included in the May 5, 2005,
c. year beginning 10/1/09	9,365	1,873	1,249	Balance Sheet, converted to contract units
IX. Expected premium		Total		
a. year beginning 10/1/07		$22,378,155.84		Item VII x Item VIII
b. year beginning 10/1/08		$45,930,419.28		x 12 months
c. year beginning 10/1/09		$71,774,881.44		

Assumptions about Catamount

1. It is assumed that the Medicare based payment rules apply only to inpatient hospital, outpatient hospital, and professional services, including mental health services, delivered to patients in Vermont by network providers. Payments for prescription drugs and other services will continue as usual.

2. Payments to professionals in 2007 and subsequent years will be calculated by increasing 110% of the 2006 Medicare professional fee level by the Medicare Economic Index (MEI) each year. This may result in payments that are different from what Medicare actually pays professionals in 2007 and subsequent, because Medicare uses more than just the MEI to determine its payment level to professionals.

   We base our rate for professional services on the 2006 Medicare fee level projected to 2007 and subsequent using best estimates of changes in the MEI and utilization of services by the Catamount population.

3. The legislation calls for hospitals to be reimbursed "at 110 percent of the hospital's actual cost for services" for 2006, and then "indexed to change in Medicare payment rules, but no lower than 102 percent of the hospital's actual cost for services" in subsequent years.

   This calculation uses the hospital costs as provided in the Vermont hospital budget calculations adjusted to 110% and then projected using the expected Medicare hospital reimbursement changes and changes in utilization by the Catamount population.

4. We assume that the benefits in the Catamount PPO may vary slightly from carrier to carrier. For purposes of developing these preliminary rates, we will assume the BCBS Freedom Plan as being the average benefit that will be marketed in Vermont, adjusted as necessary to meet the provisions of the law regarding deductibles, co-payments, out-of-pocket maximums, etc.

5. We assume that the retail drug benefit will be delivered as a stand alone benefit through a PBM.

6. We assume that all mandated benefits will apply equally to Catamount.

7. We assume the cost containment efforts such as pre-admission approval, discharge planning, case management, etc. will be allowed.

8. We assume for this calculation only that Dartmouth Hitchcock Hospital will be network providers for the major insurers in Vermont.

9. We assume that Naturopaths will be added as network providers.

Source of Rates

BCBSVT provided 4Q06 rates for their Freedom Plan PPO product adjusted to the age distribution of the uninsured population, as provided by BISHCA. Mercer further adjusted these rates to reflect the difference in provider reimbursement under the assumptions in Appendix 1.

BCBSVT considers the underlying information about age adjustments and provider reimbursement adjustments to be protected as trade secret information, and has requested that it be kept confidential. BISHCA has approved the request.

Development of Catamount Trend Factors

Item	Amount		Source
I. Specific annual trend factors			
a. Hospital	4%	per year	} Expected Medicare cost and
b. Professional	4%	per year	} utilization trend factor
c. Other, except drug	15%	per year	BCBS 4Q06 Trend Factor filing.
d. Drug	7%	per year	BCBS 4Q06 Trend Factor filing.
II. Distribution of Claims			
a. Hospital	45.5%		BCBS VT 4Q06
b. Professional	28.8%		Trend Factor filing
c. Other, except drugs	4.7%		
c. Drugs	21.0%		
e. Total	100.0%		
III. Composite annual trend factor	5.1%	per year	(.455 x 1.04) + (.288 x 1.04) + (.047 x 1.15) + (.210 x 1.07)

Adjustment for Expected Reduction in Cost Shift and Chronic Care Management Savings

I. Reduced Cost Shift

BISHCA estimates the reduction in cost shift at approximately $9.5 million. When spread among all carriers, this adjustment would be less than 1% of all commercial premiums.

II. Chronic Care Management Savings

The program is voluntary for Catamount members. They are quite young in comparison to regular commercially insured members. We assume that the prevalence of chronic conditions will be less and that their severity will be less. Therefore, assume that 10% voluntarily enroll, and that each saves 10% as a result, for a total program savings of 1%. It is possible that the savings may not materialize in the early years of the program because of the added intensity of services, as described in the program.

III. Total – Use a 2% savings, and this is a maximum under the above assumptions.